

**PHOENIX FUND, INC.
IN REHABILITATION**

**Statements of Recorded Cash Receipts
and Disbursements**

Year Ended December 31, 2007

(With Independent Auditors' Report Thereon)

BACHELOR, TILLERY & ROBERTS, LLP

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BACHELOR
ANN H. TILLERY
FRANKLIN T. ROBERTS
WM. JAMES BLACK, JR.
SCOTT E. CABANISS

3605 GLENWOOD AVENUE, SUITE 350
RALEIGH, NORTH CAROLINA 27612
TELEPHONE (919) 787-8212
FACSIMILE (919) 783-6724

Independent Auditors' Report

The Honorable James E. Long,
Commissioner of Insurance
State of North Carolina:

We have audited the accompanying statement of recorded cash receipts and disbursements of Phoenix Fund, Inc. in Rehabilitation (the "Company") for the year ended December 31, 2007. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the statement of recorded cash receipts and disbursements presents a summary of cash activity, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above presents fairly, in all material respects, the recorded cash receipts and disbursements of Phoenix Fund, Inc. in Rehabilitation for the year ended December 31, 2007, and its cash and short-term investment balances as of December 31, 2007, on the basis of accounting described in note 1 to the financial statements.

Bachelor, Tillery & Roberts, LLP

September 24, 2008

PHOENIX FUND, INC. IN REHABILITATION
Statement of Recorded Cash Receipts and Disbursements
Year Ended December 31, 2007

Operating activities:

Receipts:

Premium receipts (net of refunds)	\$ 6,051,307
Other receipts	<u>7,224,802</u>
Total operating receipts	<u>13,276,109</u>

Disbursements and other:

Policy related benefit payments	12,787,483
Commissions, general expenses, and other deductions	<u>899,038</u>
Total operating disbursements	<u>13,686,521</u>

Net cash used in operating activities	<u>(410,412)</u>
---------------------------------------	------------------

Investing activities:

Cost of investments aquired	(9,429,959)
Proceeds from investments sold	20,013,532
Investment income	<u>647,114</u>
Net cash provided by investing activities	<u>11,230,687</u>

Net increase in cash and short-term investments	10,820,275
Cash and short-term investments, beginning of period	<u>5,442,738</u>
Cash and short-term investments, end of period	<u>\$ 16,263,013</u>

See accompanying notes to financial statements.

PHOENIX FUND, INC. IN REHABILITATION

Notes to Financial Statement

Year Ended December 31, 2007

(1) Organization and Basis of Presentation

Organization

Phoenix Fund, Inc. in Rehabilitation (the "Company") is a North Carolina domiciled worker's compensation self-insured employer group fund that was placed into rehabilitation by the Wake County Superior Court on October 17, 2006. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Rehabilitator of the Fund. It is the Rehabilitator's responsibility to attempt to reform and revitalize the Fund including investigating the causes of the events that led to the Order of Rehabilitation against the Fund.

Basis of Presentation

The accompanying statement of recorded cash receipts and disbursements has been prepared on the cash basis of accounting without regard to any revenue or expense accruals, which may have existed at the beginning or end of the periods.

(2) Cash and Short-Term Investments

Cash and short-term investments consist of the following as of December 31, 2007:

First Citizens Checking	\$	(30,974)
BB&T Sweep		4,972,190
BB&T Checking		2,495
BB&T Money Market		213,397
BB&T Custody		18,747
Total cash		<u>5,175,855</u>
Regulatory Deposits		2,302,462
U.S. Treasury Bills		<u>8,784,696</u>
Total cash and short-term investments	\$	<u>16,263,013</u>

Cash and short-term investments are carried at cost, which approximates market value.

The Company maintains cash and short-term investment balances at several financial institutions in North Carolina. The Federal Deposit Insurance Corporation insures cash balances up to \$100,000. The Company's uninsured cash balances total \$5,358,812 as of December 31, 2007.